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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of The National Consumer Cooperative Bank's Financial Statements For The Fiscal Year Ended September 30, 1981, And The Quarter Ended December 31, 1981.

GAO examined the financial statements of the National Consumer Cooperative Bank for the year ended September 30, 1981, and the quarter ended December 31, 1981. The examination was made in accordance with generally accepted government auditing standards.

In GAO's opinion, the financial statements present fairly the financial position of the Bank as of September 30, 1981, and December 31, 1981, and the results of its operations and the changes in its financial position for the year and the quarter then ended in conformity with generally accepted accounting principles.



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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-206732

To the President of the Senate and the
Speaker of the House of Representatives

The National Consumer Cooperative Bank was established as a mixed ownership Government corporation on September 24, 1979, pursuant to the National Consumer Cooperative Bank Act of August 20, 1978. The Bank is authorized to make or guarantee loans and to provide technical assistance to qualified cooperatives throughout the United States.

The National Consumer Cooperative Bank Act Amendments of August 13, 1981, authorized the conversion of the Bank to a private corporation as of January 1, 1982, and the Government is now the Bank's major creditor rather than its majority stockholder.

Our audit was made in accordance with generally accepted government auditing standards and the provisions of the Government Corporation Control Act (31 U.S.C. 9101 et seq.) and the National Consumer Cooperative Bank Act (12 U.S.C. 3001 et seq.), which require the General Accounting Office to audit the Bank's financial operations.

We are sending copies of this report to the Director, Office of Management and Budget; the Chairman of the Senate Committee on Banking, Housing and Urban Affairs; the Chairman of the House Committee on Banking, Finance, and Urban Affairs; and the Board of Directors of the National Consumer Cooperative Bank.

Charles A. Bowler
Comptroller General
of the United States





COMPTROLLER GENERAL OF THE UNITED STATES

WASHINGTON D.C. 20548

B-206732

To the Board of Directors
National Consumer Cooperative Bank

We have examined the balance sheets of the National Consumer Cooperative Bank as of September 30, 1981, and December 31, 1981, and the related statements of income, changes in equity, and changes in financial position for the year and the quarter then ended. The Bank is converting from a September 30 to a December 31 yearend. Our examination was made pursuant to the National Consumer Cooperative Bank Act (12 U.S.C. 3001 et seq.) and the Government Corporation Control Act (31 U.S.C. 9101 et seq.) and in accordance with generally accepted government auditing standards and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the National Consumer Cooperative Bank as of September 30, 1981, and December 31, 1981, and the results of its operations and the changes in its financial position for the year and the quarter then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

A handwritten signature in cursive script that reads "Charles A. Bowser".

Comptroller General
of the United States



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REPORT ON INTERNAL ACCOUNTING CONTROLS

As part of our examination of the National Consumer Cooperative Bank's financial statements for the year ended September 30, 1981, and the quarter ended December 31, 1981, we made a study and evaluation of the system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- Cash
- Investments
- Loans
- Fixed assets
- Purchasing and receiving
- Accounts payable
- Payroll
- Equity

Our study included all of the control categories listed above except that we did not evaluate the accounting controls over investments and equity because we considered it more efficient to expand substantive audit tests than to rely on controls in these two categories. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Bank's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the National Consumer Cooperative Bank is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and the transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the

risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the National Consumer Cooperative Bank taken as a whole or on any of the categories of internal accounting controls identified in the first paragraph. However, our study and evaluation disclosed the following condition that we believe could result in errors or irregularities in amounts that would be material in relation to the financial statements of the National Consumer Cooperative Bank and not be detected within a timely period:

Loan Processing and Administration procedures were inadequate to provide proper control over the approval and servicing of the loan portfolio. This was evidenced by the lack of specific guidance, written or oral, incomplete loan files, inadequate filing control procedures, and incomplete and inconsistent credit requirements and loan approval procedures.

This condition was considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the 1981 financial statements, and this report does not affect our report on the financial statements.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the National Consumer Cooperative Bank for the year ended September 30, 1981, and the quarter ended December 31, 1981, and have issued our report thereon. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances.

In our opinion, the National Consumer Cooperative Bank complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the Bank's financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that the Bank was not in compliance with the terms and provisions of laws and regulations for those transactions not tested.

NATIONAL CONSUMER COOPERATIVE BANKStatement of Financial Position
September 30, 1981ASSETSAssets

Cash	\$ 218,651
Funds with U.S. Treasury (note 3)	33,704,469
Investments (note 4)	75,659,656
Funds in escrow accounts	6,109,302
Interest receivable	1,261,004
Title I loans, net of an allowance for losses of \$5,644,295 (notes 5 and 6)	45,044,347
Title II capital advances, net of an allowance for losses of \$3,454,874 (notes 5 and 6)	4,930,262
Furnishings and equipment, net of accumulated depreciation of \$66,008 (note 7)	592,206
Other assets	<u>286,524</u>
Total Assets	<u>\$167,806,421</u>

LIABILITIES and CAPITALLiabilities

Accounts payable	\$ 457,721
Payroll withholdings	17,210
Accrued expenses	610,070
Commitment fees	22,098
	<u>1,107,099</u>

Capital (note 8)

Preferred stock	137,270,000
Common stock	5,687,206
Self-Help Fund	20,282,456
Unexpended appropriations for operations	1,796,276
Accumulated results of operations	<u>1,663,384</u>
Total Liabilities and Capital	<u>\$167,806,421</u>

The accompanying notes to financial statements are an integral part of this statement.

NATIONAL CONSUMER COOPERATIVE BANKStatement of Income
Year Ended September 30, 1981

Interest earned from:	
Investments	\$ 6,195,711
Title I loans	3,183,613
Title II capital advances	<u>419,216</u>
Total interest earned	9,798,540
Provision for losses (note 2):	
Title I loans	5,410,462
Title II capital advances	<u>3,454,874</u>
Net interest income after provision for losses	<u>933,204</u>
Other income	<u>210,773</u>
Operating expenses	
Salaries and employee benefits (note 10)	5,503,941
Assistance to cooperatives and other contracts	2,484,522
Occupancy and equipment expenses	608,481
Other expenses	<u>1,255,173</u>
Total operating expenses	<u>9,852,117</u>
Loss before appropriations	(8,708,140)
Appropriations for operations (note 2)	<u>10,488,217</u>
Net Income	<u>\$ 1,780,077</u>

The accompanying notes to financial statements are an integral part of this statement.

NATIONAL CONSUMER COOPERATIVE BANK

Statement of Changes in Capital
Year Ended September 30, 1981

	<u>Class A Preferred Stock</u>	<u>Common Stock</u>	<u>Self-Help Fund</u>	<u>Unexpended Appropriations for Operations</u>	<u>Accumulated Results of Operations</u>	<u>Total Capital</u>
Balance at September 30, 1980	\$ 21,471,432	\$ 261,630	\$11,082,456	\$ 3,584,493	\$ (116,693)	\$ 36,283,318
Net proceeds from sale of stock:						
Class A preferred	115,798,568	-	-	-	-	115,798,568
Class B common	-	1,968,773	-	-	-	1,968,773
Class C common	-	3,456,503	-	-	-	3,456,503
Class D common	-	300	-	-	-	300
Proceeds from U.S. Government appropriations, net of rescission	-	-	9,200,000	8,700,000	-	17,900,000
Less appropriation expenditures for year	-	-	-	(10,488,217)	-	(10,488,217)
Net income	-	-	-	-	1,780,077	1,780,077
Balance at September 30, 1981	<u>\$137,270,000</u>	<u>\$5,687,206</u>	<u>\$20,282,456</u>	<u>\$ 1,796,276</u>	<u>\$1,663,384</u>	<u>\$166,699,322</u>

The accompanying notes to financial statements are an integral part of this statement.

NATIONAL CONSUMER COOPERATIVE BANKStatement of Changes in Financial Position
Year Ended September 30, 1981Sources of financial resources

Operations:

Net income	\$ 1,780,077
Items which do not use (provide) financial resources:	
Increase in:	
Interest receivable	(1,199,844)
Accounts payable	297,153
Payroll withholdings	2,955
Accrued expenses	167,965
Revenue recognized from prior years' appropriations	(2,265,130)
Provisions for losses	8,943,643
Depreciation	57,821
Other, net	(414,573)

Resources provided from operations 7,370,067

Sale of stock	121,224,703
Commitment fees	22,098
Appropriations from the U.S. Government:	
For Self-Help Fund	9,200,000
For operations, unexpended portion	476,913

Loan repayments:

Title I loans	7,321,029
Title II capital advances	110,025

Total sources of financial resources 145,724,835

Applications of financial resources

Increase in escrow accounts	6,109,302
Increase in supplies inventory	9,000
Increase in deposits	83,372
Title I loans	52,673,809
Title II capital advances	8,469,875
Additions to furnishings and equipment	574,789
Increase in other assets	17,330

Total applications of financial resources 67,937,477

Increase in cash, funds with U.S. Treasury, and investments	77,787,358
Cash, funds with U.S. Treasury, and investments, beginning of year	<u>31,795,418</u>
Cash, funds with U.S. Treasury, and investments, end of year	<u><u>\$109,582,776</u></u>

The accompanying notes to financial statements are an integral part of this statement.

NATIONAL CONSUMER COOPERATIVE BANKNotes to Financial Statements
September 30, 19811. Organization

Before December 31, 1981, the National Consumer Cooperative Bank (the "Bank") was a mixed ownership Government corporation, chartered by Congress on August 20, 1978, (P.L. 95-351, the "Bank Act"), for the purpose of providing loans, technical assistance, capital investment advances, and interest supplement payments to cooperatives, and for other purposes.

On January 1, 1982, the Bank became a government-chartered corporation with government financial interest and representation of the board of directors (see note 12).

2. Summary of Significant Accounting PoliciesOne-year Financial Statements

The Bank opened its loan operations on March 21, 1980. The results of operations for the year ended September 30, 1980, represent a partial year of activity and are therefore not directly comparable to operations for the year ended September 30, 1981. Accordingly, financial statements are presented for one year only.

Basis of Accounting

Assets, liabilities, income and expenses, are recognized on the accrual basis of accounting.

Basis of Accounting for Appropriations by the U.S. Government

During the fiscal years ended September 30, 1979, 1980 and 1981, the U.S. Government appropriated funds for the purchase of class A stock in the Bank, for the Self-Help Fund, and for operating expenses during the Bank's early stages.

Appropriations for operations, net of any lapsed or rescinded appropriations, are consumed by obligations of the Bank. An obligation occurs when goods are ordered or when a contract for services is signed. Until the goods are received or the services are performed, a portion of the Bank's capital is reserved for these unexpended obligations (see note 8). Appropriations for operations are recognized as revenue to the Bank in the year in which the funds are expended for operations.

Allowance for Losses

The allowance for losses is established by a charge to income as a provision for losses. Any actual losses are charged to the allowance for losses, and all recoveries are credited to it. The provision for losses charged to operating expenses is based on factors which, in management's judgment, deserve current recognition in estimating losses. Such factors include growth and composition of the portfolio of loans and capital advances, the relative newness of the portfolio, the need to build the allowance to a creditable dollar volume, the relationship of the allowance for losses to outstanding loans and capital advances, and economic conditions (see note 6).

Loans and Capital Advances

Loans and capital advances are stated at their principal amounts outstanding.

The policy of the Bank is to discontinue the accrual of interest on loans and capital advances when principal or interest payments are ninety days or more in arrears. If, in the opinion of management, the outstanding principal remains collectible, such a loan remains on the books as a "nonaccrual" loan. Interest income on nonaccrual loans and capital advances is recognized only to the extent payments are received.

Members of the Bank's board of directors may be affiliated with cooperatives receiving loans, capital advances, or technical assistance or with organizations providing technical assistance to eligible cooperatives or other services to the Bank under contract to the Bank. The Bank has conflict of interest rules, as required by section 114 of the Bank Act. They require that a board member disqualify oneself from decisions which pose a conflict of interest or the appearance of a conflict of interest.

Section 103 of the Bank Act, as amended, requires that after December 31, 1981, twelve of the fifteen members of the Bank's board of directors be elected by the holders of class B stock and class C stock. These classes of stock are held only by borrowers and by organizations eligible to borrow from the Bank. Thus, members of the board of directors may have some relationship with the Bank's borrowers and contractors.

Furnishings and Equipment

Furnishings and equipment are stated at cost less accumulated depreciation computed on the straight-line method over their estimated useful lives of five years. Maintenance and repairs are expensed as incurred.

Income Taxes

The Bank does not pay Federal income taxes on any appropriated funds it receives. The National Consumer Cooperative Bank Act Amendments of 1981 (P.L. 97-35) provide that, effective January 1, 1982, the Bank shall be treated as a cooperative and subject to the provisions of subchapter T of the Internal Revenue Code. Section 109 of the Bank Act, as amended, provides that the Bank is exempt from state and local taxes with the exception of real estate taxes.

Savings Plan

The Bank offers a voluntary savings plan to employees who have completed a probationary period (usually six months). Participants elect to contribute from two to six percent of their salaries to the plan. The Bank makes a 100 percent matching contribution in which participants are immediately and fully vested. All contributions are deposited into individual accounts and earnings are reinvested. The Bank's contributions and the earnings on both employee and Bank contributions qualify for income tax deferral under the provisions of section 401 of the Internal Revenue Code.

Upon retirement or separation, participants receive a distribution from the plan, including all contributions and the earnings thereon. The plan also has a provision for hardship withdrawals which may be made during employment.

The plan was not fully funded at September 30, 1981, but was fully funded by December 31, 1981, and there is no undisclosed liability or expense for future benefits.

Retirement Plan

The Bank offers a non-contributory retirement plan which covers substantially all employees. Participation begins immediately upon employment. After two years of service, a participant is 50 percent vested. Vesting increases gradually to 100 percent after five years of service. Contributions to the plan equal six percent of total base salaries, divided between salaries up to the Social Security wage base and salaries in excess of the Social Security wage base, with a greater percentage being contributed for the latter.

Upon retirement or separation, participants receive a distribution of their vested amount from the plan, including earnings thereon.

The plan was not funded at September 30, 1981, but was fully funded by December 31, 1981, and there is no undisclosed liability or expense for future benefits (see note 11).

3. Funds with U.S. Treasury

Funds with U.S. Treasury include Government appropriations for the following:

Operations	\$ 2,873,505
Investment in the Bank	20,123,883
Self-Help Fund	<u>10,707,081</u>
	<u>\$33,704,469</u>

4. Investments

Investments consist of the following:

<u>Security</u>	<u>Interest rate</u>	<u>Principal amount</u>
U.S. Treasury Bills, due 10/1/81	10.50	\$ 44,987
U.S. Government securities purchased under agreement to resell on:		
10/1/81	13.25	700,000
10/1/81	13.00	3,000,000
10/2/81	16.375	12,951,000
10/5/81	13.00	22,449,000
10/6/81	13.75	3,084,183
10/9/81	16.375	5,000,000
10/13/81	14.25	3,541,486
10/16/81	15.25	<u>24,889,000</u>
		<u>\$75,659,656</u>

5. Loans and Capital Advances

The Bank provides loans and capital advances under two provisions of its chartering legislation. Under the Title I provision loans are made to creditworthy cooperatives at market interest rates. Under the Title II provision capital advances (loans) are made to low income cooperatives and to cooperatives whose capital requirements exceed their ability to obtain such capital through a loan under the provision of Title I or from other sources. Title II capital advances may carry a lower rate of interest than Title I loans.

Loans and capital advances extended by the Bank are as follows:

	<u>Title I</u>		<u>Title II</u>	
	<u>Maximum term in months</u>	<u>Amount</u>	<u>Maximum term in months</u>	<u>Amount</u>
Multi-family housing	373	\$34,265,389	373	\$6,476,979
Food, producer, and other	370	<u>16,423,253</u>	362	<u>1,908,157</u>
		<u>\$50,688,642</u>		<u>\$8,385,136</u>

As of September 30, 1981, one loan has been made to an organization of which a board member is an officer. Ms. Frances Levenson is a board member of the Bank and a vice president of the New York Bank for Savings. New York Bank for Savings participates with the Bank on a loan to the Dunbar Cooperative Apartment Corporation. The amount of the loan commitment is \$5,292,000, of which \$4,553,132 is outstanding at September 30, 1981. Loans to directors' related interests are made under the same terms and conditions as those offered to the Bank's unrelated customers.

Agreements between the Bank and organizations (of which members of the Bank's board of directors are board members, officers, or employees) to provide services

to the Bank involved commitments to those organizations of \$365,820, of which \$303,760 been disbursed as of April 2, 1982.

6. Allowance for Losses

A summary of the changes in the allowance for losses follows:

	<u>Title I</u>	<u>Title II</u>
Balance at beginning of year	\$ 256,311	\$ -
Add provision for losses	5,410,462	3,454,874
	<u>5,666,773</u>	<u>3,454,874</u>
Deduct loans and capital advances charged off	22,478	-
	<u>\$5,644,295</u>	<u>\$3,454,874</u>

7. Furnishings and Equipment

Furnishings and equipment of the Bank at September 30, 1981, consist of the following:

Furnishings and equipment	\$605,892
Leasehold improvements	43,907
Other	8,415
	<u>658,214</u>
Less accumulated depreciation	66,008
	<u>\$592,206</u>

8. Capital

Preferred and Common Stock

As of September 30, 1981, the Bank's stock consisted of class A preferred stock owned by the U.S. Government, class B common stock owned by borrowers from the Bank, class C common stock owned by cooperatives eligible to borrow from the Bank, and class D non-voting common stock owned by others. The Bank's capital stock consists of the following:

	<u>Class A</u>	<u>Class B</u>	<u>Class C</u>	<u>Class D</u>
Par value per share	\$100	\$100	\$100	\$100
Shares authorized	3,000,000	100,000	100,000	200,000
Shares issued and outstanding	1,372,700	22,229	34,640	3

On December 31, 1981, the class A preferred stock owned by the Government was converted to class A capital notes (see note 11). Shares of class A stock have preference with respect to assets and dividends over all other classes of stock. Dividends may not be paid on class B stock.

Self-Help Fund

Self-Help Fund appropriations by the U.S Government consist of cumulative appropriations for the Self-Help Fund, net of funds lapsed and rescinded, as follows:

<u>Fiscal year</u>	<u>Appropriation</u>
1979	\$ 582,456
1980	10,500,000
1981	<u>9,200,000</u>
	<u>\$20,282,456</u>

The Bank Act Amendments of 1981, enacted on August 13, 1981, require the establishment of a nonprofit corporation as soon as possible under the provisions of Section 501(c)(3) of the Internal Revenue Code to assume the duties and responsibilities of the Office of Self-Help Development and Technical Assistance. These duties include making capital investment advances and interest supplement advances to eligible cooperatives, as well as providing technical assistance to cooperatives, conducting research into matters relating to cooperatives, and undertaking investigations of new types of services which can be provided through cooperative not-for-profit organizations. The Board will decide the organizational structure.

Self-Help Fund activities reflected in the income statement of the Bank include interest on capital advances and provision for losses on capital advances of \$419,216 and \$3,454,874, respectively.

Unexpended Appropriations

Unexpended appropriations for operations consist of that portion of appropriations for operations which has been obligated for goods or services but which has not yet resulted in an expenditure to the Bank. The year end balance was as follows:

Total appropriations	\$18,150,000
Funds rescinded, July 8, 1980	(555,000)
Funds lapsed, Sept. 30, 1979 and 1980	<u>(1,374,622)</u>
Appropriations available	16,220,378
Appropriations expended:	
Fiscal 1979	(16,332)
Fiscal 1980	(3,919,553)
Fiscal 1981	<u>(10,488,217)</u>
Unexpended appropriations remaining	<u>\$ 1,796,276</u>

9. Net Operating Loss Carryforward

The Bank has net operating loss carryforwards available to it which may be used to offset taxable income in future years. These expire as follows:

September 30,

1994	\$ 9,729
1995	4,042,849
1996	<u>8,721,517</u>
	<u>\$12,774,095</u>

For financial statement purposes the loss carryforwards are substantially the same as for tax purposes.

10. Retirement Plan

The Bank has a non-contributory retirement plan covering substantially all employees. Total pension expense was \$211,527 for the year ended September 30, 1981. At September 30, 1981, substantially no employees were vested in the plan (see note 2).

11. Subsequent Event

On December 31, 1981, the Bank issued unsecured, non-negotiable, class A capital notes to the U.S. Treasury in the amount of \$184,270,000, as provided in the Bank Act, as amended, in full redemption of the class A preferred stock previously owned by the Government. See note 8 of the December 31, 1981, notes to financial statements for further explanation of this event.

NATIONAL CONSUMER COOPERATIVE BANKStatement of Financial Position

December 31, 1981

ASSETSAssets

Cash	\$	748,439
Funds with U.S. Treasury (note 3)		4,190,889
Investments (note 4)		154,597,215
Funds in escrow accounts		5,406,662
Interest receivable		813,844
Title I loans, net of an allowance for losses of \$6,049,563 (notes 5 and 6)		48,691,760
Title II capital advances, net of an allowance for losses of \$3,930,851 (notes 5 and 6)		5,580,740
Furnishings and equipment, net of accumulated depreciation of \$89,118 (note 7)		576,350
Other assets		401,610
		<u>401,610</u>
Total Assets		<u>\$221,007,509</u>

LIABILITIES and CAPITALLiabilities

Accounts payable	\$	490,159
Payroll withholdings		60,537
Accrued expenses		402,555
Commitment fees		17,547
		<u>970,798</u>

Capital (note 8)

U.S. Government - Subordinated capital notes		<u>184,270,000</u>
Shareholders' ownership		
Common stock	\$5,872,014	
Unexpended appropriations for operations	1,387,026	
Accumulated results of operations	<u>3,225,215</u>	<u>10,484,255</u>
Self-Help Fund		<u>25,282,456</u>
Total Liabilities and Capital		<u>\$221,007,509</u>

The accompanying notes to financial statements are an integral part of this statement.

NATIONAL CONSUMER COOPERATIVE BANKStatement of Income
Three Months Ended December 31, 1981

Interest earned from:	
Investments	\$2,783,513
Title I loans	1,474,988
Title II capital advances	<u>129,518</u>
Total interest earned	4,388,019
Provision for losses:	
Title I loans	433,905
Title II capital advances	<u>666,976</u>
Net interest income after provision for losses	<u>3,287,138</u>
Other income	<u>16,818</u>
Operating expenses	
Salaries and employee benefits (note 10)	1,258,825
Assistance to cooperatives and other contracts	445,280
Occupancy and equipment expenses	170,947
Other expenses	<u>276,323</u>
Total operating expenses	<u>2,151,375</u>
Income before appropriations	1,152,581
Appropriations for operations	<u>409,250</u>
Net Income	<u><u>\$1,561,831</u></u>

The accompanying notes to financial statements are in integral part of this statement.

NATIONAL CONSUMER COOPERATIVE BANK

Statement of Changes in Capital
Three Months Ended December 31, 1981

	<u>Subordinated Capital Notes and Preferred Stock (note 8)</u>	<u>Common Stock</u>	<u>Unexpended Appropriations for Operations</u>	<u>Accumulated Results of Operations</u>	<u>Self-Help Fund</u>	<u>Total Capital</u>
Balance at September 30, 1981	\$137,270,000	\$5,687,206	\$1,796,276	\$1,663,384	\$20,282,456	\$166,699,322
Net proceeds from sale of stock:						
Class B common	-	30,622	-	-	-	30,622
Class C common	-	154,186	-	-	-	154,186
U.S. Government investment	47,000,000	-	-	-	5,000,000	52,000,000
Less appropriation expenditures for period	-	-	(409,250)	-	-	(409,250)
Net income	-	-	-	1,561,831	-	1,561,831
Balance at December 31, 1981	<u>\$184,270,000</u>	<u>\$5,872,014</u>	<u>\$1,387,026</u>	<u>\$3,225,215</u>	<u>\$25,282,456</u>	<u>\$220,036,711</u>

The accompanying notes to financial statements are an integral part of this statement.

NATIONAL CONSUMER COOPERATIVE BANKStatement of Changes in Financial Position
Three Months Ended December 31, 1981Sources of financial resources

Operations:	
Net income	\$ 1,561,831
Items which do not use (provide) financial resources:	
Increase in:	
Accounts payable	32,438
Payroll withholdings	43,327
Decrease in:	
Interest receivable	447,160
Supplies	13,000
Accrued expenses	(207,515)
Revenue recognized from prior period appropriations	(409,250)
Provision for losses on loans and capital advances	1,100,882
Depreciation	23,861
Other, net	(111,100)
Resources provided from operations	<u>2,494,634</u>
Sale of stock	47,188,409
Appropriations of the U.S. Government--Self-Help Fund	5,000,000
Decrease in escrow accounts, net	702,640
Loan repayments:	
Title I loans	1,291,830
Title II capital advances	26,467
Capital notes issued to U.S. Government for preferred stock	<u>184,270,000</u>
Total sources of financial resources	<u>240,973,980</u>
<u>Applications of financial resources</u>	
Refund of commitment fees	4,551
Increase in deposits	82,307
Title I loans	5,272,969
Title II capital advances	1,333,124
Additions to furnishings and equipment	11,483
Increase in other assets	45,779
Preferred stock redeemed for capital notes	<u>184,270,000</u>
Total applications of financial resources	<u>191,020,213</u>
Increase in cash, funds with U.S. Treasury, and investments	49,953,767
Cash, funds with U.S. Treasury, and investments, September 30, 1981	<u>109,582,776</u>
Cash, funds with U.S. Treasury, and investments, December 31, 1981	<u>\$159,536,543</u>

The accompanying notes to financial statements are an integral part of this statement.

NATIONAL CONSUMER COOPERATIVE BANKNotes to Financial Statements
December 31, 19811. See September 30, 1981, Notes

The notes to the financial statements of September 30, 1981, are an integral part of these notes and are supplemented by the following notes.

2. Summary of Significant Accounting PoliciesShort Fiscal Year

The Bank has changed its fiscal year end from September 30 to December 31. The accompanying financial statements report the results of operations for the three months ended December 31, 1981.

3. Funds with U.S. Treasury

Funds with U.S. Treasury consist of Self-Help Fund appropriations.

4. Investments

Investments consist of U.S. Government securities under repurchase agreements:

<u>Resale date</u>	<u>Interest rate</u>	<u>Principal amount</u>
1/4/82	11.125	\$ 64,470,534
1/4/82	11.125	10,529,466
1/5/82	11.625	19,693,000
1/6/82	11.75	20,000,000
1/7/82	11.375	3,115,000
1/13/82	12.00	8,704,317
1/13/82	11.875	17,678,000
1/18/82	12.00	8,399,000
1/28/82	11.50	2,007,898
		<u>\$154,597,215</u>

5. Loans and Capital Advances

Loans and capital advances extended by the Bank are as follows:

	<u>Title I</u>		<u>Title II</u>	
	<u>Maximum term in months</u>	<u>Amount</u>	<u>Maximum term in months</u>	<u>Amount</u>
Multi-family housing	373	\$38,247,947	373	\$7,296,973
Food, producer, and other	370	<u>16,493,376</u>	362	<u>2,214,618</u>
		<u>\$54,741,323</u>		<u>\$9,511,591</u>

As of December 31, 1981, the loan to the Dunbar Cooperative Apartment Corporation (mentioned in note 5 of the September 30, 1981, financial statements) was committed in the amount of \$5,292,000, of which \$5,185,049 was outstanding. Loans to directors' related interests are made on substantially the same terms and conditions as those offered to the Bank's unrelated customers.

Agreements between the Bank and organizations (of which members of the Bank's board of directors are board members, officers, or employees) to provide services to the Bank involved commitments to those organizations of \$365,820, of which \$303,760 had been disbursed as of April 2, 1982.

6. Allowance for Losses

A summary of the changes in the allowance for losses follows:

	<u>Title I</u>	<u>Title II</u>
Balance at beginning of period	\$5,644,295	\$3,454,874
Add provision for losses	433,905	666,976
	<u>6,078,200</u>	<u>4,121,850</u>
Deduct loans and capital advances charged off	28,637	190,999
	<u>\$6,049,563</u>	<u>\$3,930,851</u>

7. Furnishings and Equipment

Furnishings and equipment of the Bank at December 31, 1981, consist of the following:

Furnishings and equipment	\$613,018
Leasehold improvements	44,035
Other	8,415
	<u>665,468</u>
Less accumulated depreciation	89,118
	<u>\$576,350</u>

8. Capital

U.S. Government - Subordinated Capital Notes

On December 31, 1981, the Bank issued unsecured, non-negotiable, class A capital notes to the U.S. Treasury in the amount of \$184,270,000, as provided in the Bank Act, as amended, in full redemption of the class A preferred stock previously owned by the Government. The notes and all related payments are subordinated to any secured or unsecured notes and debentures thereafter issued by the Bank, but the notes have first preference with respect to the Bank's assets over all classes of stock issued by the Bank. So long as any class A notes are outstanding, the Bank shall not pay any dividend on any class of stock at a rate greater than the statutory interest rate payable on class A notes.

The notes require that, beginning on December 31, 1981, and ending on December 31, 1990, 30 percent of the proceeds from the sale of stock, other than classes B or C, be applied to the redemption of the notes. The notes are to be fully repaid, according to a repayment schedule to be established December 31, 1990, not later than December 31, 2020, provided that, beginning October 1, 1990, the proceeds from the sale of class B and C stock be applied annually toward the repayment of the notes.

The Bank Act states that the amount of Bank borrowing which may be outstanding at any one time shall not exceed 10 times the paid-in capital and surplus of the Bank, including the amount of the class A notes.

The notes entitle the holder to annual interest payments not to exceed 25 percent of the Bank's gross revenues less necessary operating expenses, including a provision for losses. The interest rate, subject to the aforementioned limitation, is determined by the U.S. Treasury on the basis of the average market yield of U.S. obligations of comparable maturity. With the consent of the U.S. Treasury, interest may be permitted to accumulate in certain circumstances.

Without the approval of the Secretary of the Treasury, the Bank shall not pay any dividend or distribution on, or make any redemption or repurchase of any class of stock at any time when the deferred interest payments on class A notes shall not have been paid in full, together with any unpaid interest on such notes.

Common Stock

The Bank's common stock consists of class B stock owned by borrowers from the Bank, class C stock owned by cooperatives eligible to borrow from the Bank, and class D non-voting stock owned by others.

The Bank's common stock consists of the following:

	<u>Class B</u>	<u>Class C</u>	<u>Class D</u>
Par value per share	\$100	\$100	\$100
Shares authorized	100,000	100,000	200,000
Shares issued and outstanding	8,817	49,900	3

Unexpended Appropriations

Unexpended appropriations for operations consist of that portion of appropriations for operations which has been obligated for goods or services but which has not yet resulted in an expenditure to the Bank. At December 31, 1981, the balance was as follows:

Total appropriations	\$18,150,000
Funds rescinded, July 8, 1980	(555,000)
Funds lapsed, Sept. 30, 1979 and 1980	<u>(1,374,622)</u>
Appropriations available	16,220,378
Appropriations expended:	
Fiscal 1979	(16,332)
Fiscal 1980	(3,919,553)
Fiscal 1981	(10,488,217)
Three months ended December 31, 1981	<u>(409,250)</u>
Unexpended appropriations remaining	<u>\$ 1,387,026</u>

Self-Help Fund

Self-Help Fund appropriations by the U.S. Government consist of cumulative appropriations for the Self-Help Fund, net of funds lapsed and rescinded, as follows:

<u>Fiscal year</u>	<u>Appropriation</u>
1979	\$ 582,456
1980	10,500,000
1981	9,200,000
1982	<u>5,000,000</u>
	<u>\$25,282,456</u>

9. Net Operating Loss Carryforward

The Bank utilized \$1,338,492 of tax loss carryforward for the period ended December 31, 1981. In addition, the Bank has net operating loss carryforwards available to it which may be used to offset taxable income in future years. These expire as follows:

<u>September 30,</u>	
1995	\$2,908,449
1996	<u>8,721,517</u>
	<u>\$11,629,966</u>

For financial statement purposes the loss carryforwards are substantially the same as for tax purposes.

10. Retirement Plan

The Bank has a non-contributory retirement plan covering substantially all employees. Participation begins immediately upon employment. After two years of service, a participant is 50 percent vested. Vesting increases gradually to 100 percent after five years of service. Contributions to the plan equal six percent

of total base salaries, divided between salaries up to the Social Security wage base and salaries in excess of the Social Security wage base, with a greater percentage being contributed for the latter. Total pension expense was \$57,433 for the period ended December 31, 1981. At December 31, 1981, substantially no employees were vested in the plan.

On December 31, 1981, the Bank had contributed to the retirement plan the costs related to past services of all eligible employees through September 30, 1981. The contributions for the period of October 1, 1981, through December 31, 1981, were made in February, 1982.





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